

Buy

TP E£287.00 (from E£284.00)

Orascom Construction Ind

Demerger should be the catalyst

OCI announced a string of positive news flow, but the share price remains depressed, likely the result of the uncertain political situation. Nevertheless, we believe patient investors should benefit from solid fundamentals in construction and fertilisers and that the announcement of the separation of the two businesses should be a major catalyst for the share in early 2012. We maintain a Buy recommendation.

Rasmala Refiner

Price (close 20 Dec)	E£202.61
3M high/low	E£244.00/195.00
Market cap	E£41.76bn
Av (12M) turnover	E£32.78m
Freefloat	45%
Reuters	OCIC.CA
Bloomberg	OCIC.EY
Net debt (cash) (FY10) m	E£11847.00
3yr EPS CAGR 11-13F	25.6%
Income (2012F div yield)	6.5%

Source: Bloomberg

Rasmala vs consensus

PBT (E£m)	RBS	Cons	% diff
2011F	6324	6345	0%
2012F	7732	8346	-7%
2013F	9005	9290	-3%

Source: Rasmala forecasts, Bloomberg

Price performance

	(1M)	(3M)	(12M)
Price (E£)	227.6	234.2	n/a
Absolute (%)	-11.0	-13.5	n/a
Rel to mkt*(%)	-0.9	4.2	n/a

*EGX30

Source: Bloomberg

Key events

Date	Event
TBD	EGM for demerger
Mar-12	2011 results

Source: Company

Event: OCI announces it plans to demerger the construction business by 1Q12

OCI has announced that its board of directors decided to file with the relevant authorities to demerger OCI's construction business from its fertiliser business. OCI expects to complete the process in 1Q12. OCI's existing shareholders would receive free of charge one share in the demerged company for every share held in OCI immediately prior to the demerger. Both shares will continue to be listed on the EGX. Nassef Sawiris is expected to serve as chairman and CEO of OCI in the continuing (fertiliser) company and as chairman of the demerged (construction) holding company. We believe such a move makes sense, because it will create more visibility for investors for each of the two operating segments, the strategic direction will be clearer for each company and each can be valued against its peers as a pure-play (global) fertiliser and (predominantly MENA) construction company. Fertilisers accounted for about 70% of OCI's EBITDA and 72% of net income in 3Q11.

Forecasts: Adjusting our forecasts slightly for recent events

We adjust our forecasts slightly, taking into account at least US\$900m of significant additions to the construction backlog to date in 4Q11, including this week's announcement of the US\$600m (OCI's share) award for the Grand Museum in Cairo. We raise our end-2011 backlog forecast from US\$5.9bn to US\$6.5bn, resulting in a higher growth forecast for this business. We maintain our 2012 urea price forecast of US\$375/tonne, but adjust for slightly later start-ups than anticipated in our previous forecasts for debottlenecking at the EFC plant in Egypt and Sorfert in Algeria. Overall, the net income change in 2011-13 forecasts is negligible (less than 1%).

Valuation: New target price is E£287; share held back by political uncertainty in Egypt

We value OCI on a sum-of-the-parts basis for the construction business and each of the fertiliser plants, which yields a TP of E£287ps (from E£284). In our valuation, construction accounts for an EV of about US\$2.8bn, which implies a target 2012F EV/EBITDA 6.2x; and fertilisers account for an EV of US\$8.9bn, which implies a target 2012F EV/EBITDA of 7.3x, which we believe compares favourably with Yara's current 2012F multiple of 7.5x and SAFCO's 11.5x. We believe the share has been under pressure mainly because of political unrest in Egypt, but we assign a high cost of equity of 27.5% (up from 26%) for the Egyptian part of the business. A risk for OCI is an increase in gas prices in Egypt, but if we were to assume an increase in the gas price from US\$1.50 and US\$1.25/MMBtu to US\$3.0/MMBtu for the two fertiliser plants in Egypt, our TP would decline only to EGP277ps.

Key forecasts

year to Dec	FY09A	FY10A	FY11F	FY12F	FY13F
Revenue (E£m)	21,313	27,552	32,428	36,194	40,115
EBITDA (E£m)	4,421	6,051	8,449	9,686	10,834
Normalised PTP (E£m)	3,041	4,489	6,324	7,732	9,005
Norm fully diluted EPS (E£)	11.74	16.23	20.45	26.53	32.18
Normalised PE	17.26	12.49	9.91	7.64	6.30
Dividend per share (E£)	9.90	11.26	11.26	13.27	16.09
Dividend yield (%)	4.89	5.56	5.56	6.55	7.94

Accounting standard: Local Egyptian standards

Source: Company data, Rasmala forecasts

Analyst

Hans Zayed

+971 4 424 2795

hans.zayed@rasmala.com

Important disclosures can be found in the Disclosures Appendix.

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Rasmala Equities Forecasts: Orascom Construction Ind

Income statement

E£m, year to December	FY09A	FY10A	FY11F	FY12F	FY13F
Revenue	21313	27552	32428	36194	40115
Cost of sales	-15564	-19383	-22165	-23855	-26309
Operating costs	-1328	-2118	-1813	-2653	-2972
EBITDA	4421	6051	8449	9686	10834
DDA & Impairment (ex gw)	-1017	-1385	-1661	-1848	-1848
EBITA	3404	4666	6789	7838	8986
Goodwill (amort/impaird)	n/a	n/a	n/a	n/a	n/a
EBIT	3404	4666	6789	7838	8986
Net interest	-497.4	-570.5	-920.0	-505.0	-400.0
Associates (pre-tax)	n/a	n/a	n/a	n/a	n/a
Other pre-tax items	134.7	393.3	455.0	399.0	418.9
Reported PTP	3041	4489	6324	7732	9005
Taxation	-491.3	-840.1	-1599	-1526	-1531
Minority interests	-133.6	-304.7	-510.0	-737.9	-841.3
Other post-tax items	0.00	0.00	0.00	0.00	0.00
Reported net profit	2417	3344	4214	5468	6633
Tot normalised items	0.00	0.00	0.00	0.00	0.00
Normalised EBITDA	4421	6051	8449	9686	10834
Normalised PTP	3041	4489	6324	7732	9005
Normalised net profit	2417	3344	4214	5468	6633

Balance sheet

E£m, year ended December	FY09A	FY10A	FY11F	FY12F	FY13F
Cash & market secs (1)	6136	5746	4118	8873	13907
Other current assets	13214	15909	19368	21209	23464
Tangible fixed assets	10697	12009	15226	17548	15879
Intang assets (incl gw)	9874	11062	8500	7000	7000
Oth non-curr assets	6938	10054	8817	5888	5340
Total assets	46857	54780	56029	60518	65590
Short term debt (2)	2266	3342	3000	3000	3000
Trade & oth current liab	13163	14647	13771	14976	16231
Long term debt (3)	11219	14251	14251	14251	14251
Oth non-current liab	3066	3634	3648	3648	3648
Total liabilities	29715	35875	34670	35875	37129
Total equity (incl min)	17143	18905	21360	24644	28460
Total liab & sh equity	46857	54780	56029	60518	65590
Net debt	7349	11847	13133	8378	3344

Cash flow statement

E£m, year to December	FY09A	FY10A	FY11F	FY12F	FY13F
EBITDA	4421	6051	8449	9686	10834
Change in working capital	n/a	n/a	n/a	n/a	n/a
Net interest (pd) / rec	n/a	n/a	n/a	n/a	n/a
Taxes paid	n/a	n/a	n/a	n/a	n/a
Other oper cash items	n/a	n/a	n/a	n/a	n/a
Cash flow from ops (1)	4421	6051	8449	9686	10834
Capex (2)	0.00	0.00	0.00	0.00	0.00
Disposals/(acquisitions)	0.00	0.00	0.00	0.00	0.00
Other investing cash flow	n/a	n/a	n/a	n/a	n/a
Cash flow from invest (3)	0.00	0.00	0.00	0.00	0.00
Incr / (decr) in equity	n/a	n/a	n/a	n/a	n/a
Incr / (decr) in debt	n/a	n/a	n/a	n/a	n/a
Ordinary dividend paid	n/a	n/a	n/a	n/a	n/a
Preferred dividends (4)	n/a	n/a	n/a	n/a	n/a
Other financing cash flow	n/a	n/a	n/a	n/a	n/a
Cash flow from fin (5)	0.00	0.00	0.00	0.00	0.00
Forex & disc ops (6)	n/a	n/a	n/a	n/a	n/a
Incr/(decr) cash (1+3+5+6)	4421	6051	8449	9686	10834
Equity FCF (1+2+4)	4421	6051	8449	9686	10834

Source: Company data, Rasmala forecasts

Disclosure Appendix

Recommendation structure

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

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